



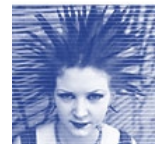
Ireland 2004

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The Money Advice and Budgeting Service Ireland

A service to help people with financial problems and to tackle over-indebtedness

Synthesis Report





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1. Executive Summary

1.1 *The context*

The seventh in the current series of Peer Reviews in the field of social inclusion policies took place in Carrigaline, near Cork, in the South of Ireland on 18-19th November 2004 to examine a model to fight over-indebtedness: the Irish Money Advice and Budgeting Service (MABS) and its transferability to other EU Member States. Over-indebtedness is growing in Europe and leads to social exclusion. There are, roughly estimated, 20 million households affected by over-indebtedness.

The meeting was hosted by the Irish Department of Social and Family Affairs and attended by representatives from seven peer review countries: Denmark, Germany, Hungary, Luxembourg, the Netherlands, Slovenia and the UK, with stakeholder participants from the European Anti-Poverty Network and the Réseau Européen Trans-régional pour l' Inclusion Sociale. Mr. Hugues Feltesse took part on behalf of the European Commission (Employment DG). The Director General of the Irish Department of Social and Family Affairs (DSFA), Ms Bernadette Lacey, participated in the first part of the Peer Review meeting.

1.2 *Good practice*

The Irish Money Advice and Budgeting Service (MABS) addresses problems caused by money lending and over-indebtedness, and its main aim is to help people to cope with debt and take control of their own finances. Clients with problems receive one-to-one counselling from a trained money adviser. The training is supported by a 'Money Advice Manual' which has been written by practitioners. The service is free, confidential and independent. It is open to all who seek help. MABS has a special relationship with Ireland's extensive credit union network (involving some 60% of the population), enabling clients to open savings accounts and obtain affordable credit. MABS does not pay clients' debts.

The MABS started as a group of five pilot projects in 1992 and now operates across the Republic of Ireland through 52 independent, locally based companies limited by guarantee. They are run by management boards made up of representatives from local bodies such as public authorities, police, local devel-



opment projects and non-governmental organisations, health boards and credit unions. MABS has 228 employees in 65 locations. The service is financed with a budget of € 11.4 million in 2004 by the Irish government, through the Department of Social and Family Affairs.

The service now has a caseload of 30,000 clients, with 16,000 new requests for assistance every year. A statistical evaluation in 2000 found that two thirds of the clients were female. Some 70% of clients were receiving social welfare and 31% were lone parents. Over 90% of the clients and most of the local bodies were satisfied with the service. It brings over-indebted clients back to every-day-life with all its duties and in some cases has saved lives when money worries cause suicidal thoughts or even attempts.

Unlike many other EU Member States, Ireland does not yet have a Debt Settlement Act. Imprisonment for debts is still possible. That is the reason why MABS launched a new initiative in June 2003, the Debt Settlement Pilot Programme, in partnership with the Irish Bankers' Federation and other creditors, offering debtors an agreed long-term repayment programme with the write-off of residual debt after an agreed period of three to five years.

The peer review members also took part in three site visits and examined specific aspects of the MABS operation (data collection, counselling process, 'Money Advice Manual') in Cork, Mallow and Dungarvan.

1.3 Transferability

The meeting agreed that over-indebtedness is a growing problem across Europe which leads in many cases to exclusion from affordable financial services and withdrawal from social and economic life, and contributes to bad health, family problems, homelessness and unemployment.

Though several EU Member States have already included activities to tackle over-indebtedness in their National Action Plans for social inclusion (NAPs/Incl), some still have not. The participants of the meeting therefore called for a higher emphasis on this in the next round of Action Plans from 2006, together with the collection of comparable data at European level.



The approaches to tackling over-indebtedness vary broadly in the EU Member States. The diversity reaches from Belgium, with a kind of tax for debt counselling on credit lending, Germany and The Netherlands, with welfare organizations and communal services providing debt counselling, to Slovenia, with no implemented money advice and debt counselling service structure, or Denmark, with a very tolerant procedure for debt settlement.

There was broad agreement that MABS would be most transferable to countries where systems of money advice and debt counselling are not already developed. Both Slovenia and Denmark were very interested in adopting similar models. Being essentially a centralised service, it would be harder to transfer to countries with decentralised administrative structures (e.g. federal states), or where such responsibilities are devolved to regional or municipal level, like Germany and Hungary.

The 'Money Advice Manual', described as an impressive work, could be adapted for use in any country. Other elements for transferability included the 'people-oriented style', the central funding and coordination, the collection of standard quarterly statistics, the evaluation methods, the private-public-partnership model, accounting software that enables the services to make a single regular payment for distribution among creditors. Stakeholder representatives praised the mix of national coordination and local diversity, the strong emphasis on social cohesion and the quality of human contact.

There were some lessons which could be learnt by the peer review process. The participants expressed the need for a joint definition of over-indebtedness and emphasised the urgency of 'debt-proofing' policies at national and European levels, and mainstreaming of over-indebtedness in other measures. They also stressed the importance of an institutional or legislative framework to put debt management services and debt rescheduling or writing-off on a statutory footing. The combat against over-indebtedness and other forms of social exclusion needs a strong ongoing support by the political will and power. The issue of over-indebtedness should be considered at EU-level but also at national level. Responsibilities can be shared between different levels within a country. It is not a question of '*top-down*' or '*bottom-up*' developments, it is more a matter of *communicating vessels, e.g. interaction between all levels*.



The public-private-partnership model is effective, requiring cooperation between professional and voluntary organisations and other bodies, including the financial world. New initiatives for involving banks, insurances, mail order companies, moneylenders etc. should be developed.

Besides that, accessibility, universality and targeting of the services are key success factors. There is still European wide more demand than supply for money advice and debt counselling.

The peer group also called for particular attention of the consumer and debtor perspective in the development of the European Consumer Credit Directive.



2. The Issue: Tackling Over-indebtedness

It can be estimated that at least 20 million people are over-indebted in Europe, debt is very much a social policy issue. The combat against over-indebtedness is one of the key issues of the European policy against social exclusion. Some of the European Member States have explicitly put on their political agenda the fight against over-indebtedness. Over-indebtedness is found in all countries but it is a special problem for people on low incomes or socially excluded.

Whole families are affected by over-indebtedness and poverty, including children. Loss of self-esteem, guilt, anxiety and despair are the consequences. Over-indebtedness clearly affects human capabilities, as conceived by Amartya Sen (1985) and individual resources including physical and mental health, social capital (contacts and participation), human capital (education and experience).

Thus, over-indebtedness can lead to five different ways of exclusion:

- the *access* exclusion to information and financial services, e.g. by refusal of a bank account
- the *price* exclusion where people only gain access to financial products at a price they cannot afford
- the *condition* exclusion where the conditions attached to the financial products make them inappropriate to the needs of people with debts
- the *self*-exclusion when people withdraw from social and financial life because of fear, shame, disappointment or resignation
- the *social* exclusion when people are excluded from social life by creditor's sanctions (e.g. compulsory evacuations)

To prevent or fight exclusion, specialised services are usually defined by three goals:

- *prevention* of debt problems
- *rehabilitation* of the debtor
- *emancipation* of the debtor from compulsive consumption and the use of consumer credit.

The specific measures taken to tackle the problem must reflect local conditions. The Money Advice and Budgeting Service (MABS) is the Irish answer to the problem of over-indebtedness. As the Irish Director General of the DSFA, Bernadette Lacey, stated: "*MABS is a beacon of hope that can restore dignity*



and self-confidence, thereby relieving stress and having a positive impact on the general health and well-being of family members."

Depending on the percentage of house ownership, in many countries mortgage credit represents the bulk of outstanding credit, at least 60% of all credits to households. In Ireland, even 80% of personal debt relates to house buying. A further 18% covers other items such as education, holidays or cars, and 2% of borrowing is on credit cards. Outstanding debts amount up to € 40547 million for residential mortgages, € 9960 million for personal credits and € 1379 million for debts on credit cards in 2002. According to representative surveys, 12% of the Irish population were overindebted due to ordinary living expenses, numbering 156,000 households.

The major problem in Ireland derives from the moneylending. It is estimated that there are 100,000 direct money lender customers - not counting those operating illegally. At present still 20-30% of MABS clients have debts to moneylenders. People continue to use moneylenders, even at high interest, because they get immediate cash in a door-to-door situation and payments are collected weekly.

In contrast to other European countries, Ireland has no debt settlement law. In principle debtors still can end up in prison as in the Dickensian era. MABS and the Irish Banker Federation (IBF) with the 'Pilot Debt Settlement Scheme' undertook a common initiative for a voluntary debt settlement arrangement. After intensive negotiations, the two sides agreed that this arrangement would attempt to achieve a compromise between the rights of the creditor to recover as much of the money loaned as possible, and the right of the indebted person and his/her dependents to live and work with dignity during the repayment period, with the prospect of release from residual unsecured debt at the end of this period. Though this scheme principally allows a 'Fresh Start', it remains to be seen whether creditors can be persuaded to make the scheme work on a voluntary basis. Furthermore, only MABS clients would benefit from the voluntary scheme and not the rest of the population. A legal basis would create a better framework.



3. The European context

MABS is especially relevant to the objectives set by the National Action Plans against poverty and social exclusion (NAPs/Incl 2003-2005). The European Council has defined as one of the objectives of the fight against poverty and social exclusion the putting into place of policies to prevent life crises that lead to social exclusion. Tackling over-indebtedness ranks as equally important to preventing exclusion from school and homelessness. European Member States like Ireland, UK, Belgium, The Netherlands, France, Germany, Austria, Lithuania, Hungary have included the fight against over-indebtedness in their National Action Plans on Social Inclusion.

In the fight against over-indebtedness, definitions as well as the legal approaches and counselling settings vary from country to country. Currently there is no official or common scientific European definition of over-indebtedness. Even the European Union speaks of 'indebtedness' instead of over-indebtedness. But the terms should not be mixed up. Indebtedness is any kind of credit and/or debt taken by a household. Without indebtedness and credit-taking by private households, economic growth is hard to imagine. Over-indebtedness indicates the opposite, loss, problems, decline. The variety of definitions can be illustrated with some examples:

Over-indebtedness is the imbalance between income and expenditure which occurs when expenditure exceeds income and the shortfall cannot be made up (Ireland)

It is the case when the borrower is likely to face growing (and multiple) debts which s/he finds increasingly difficult to discharge, leading ultimately to bankruptcy (UK)

Overindebted are people with overdue payments regarding consumer credits and mortgage loans (Belgium)

Over-indebtedness is given when the monthly discharge of debts exceeds 30% of the available household net income (France)

Over-indebtedness is the failure to meet payment obligations, leading to the economic and psychosocial destabilisation of debtors (Germany)



Over-indebtedness are situations when an individual or a family can fulfil no more the repayment of his outstanding debt, and has de facto defaulted at least one of his credits (European Credit Research Institute)

Different definitions cause different policies. Crucial for the success of a European policy to fight over-indebtedness is the existence, compilation and use of comparable statistical indicators. Finding a common definition of over-indebtedness in the EU would enable statistics on over-indebted households for comparison across Europe. At present, the single figures can hardly be put together for a EU wide statistic. Member States use different criteria to measure the number of over-indebted persons and even within countries the estimations differ dependent on the source. To give a rough idea about the dimension of the problem, it can be estimated that 20 million households are over-indebted in the EU Member States. For Denmark, Italy, Portugal and Spain, there are only informations from the Betti-Report available which are based on the European Community Household Panel (ECHP-UDB).

Besides the definitions, there are further elements of difference in the European setting. One is the *credit culture*. People in the UK, Germany, Sweden and Austria are using consumer credit much more than other countries. Ireland and the UK have a much higher use of credit card credits than e.g. Germany or France. On the other hand, the use of an allowed overdraft of a bank account is widely spread in Germany, Austria and the Netherlands. Southern countries like Italy are more likely to use other institutions than banks for financing consumer needs. Credit unions and moneylenders are for example a specific feature of Ireland, whereas *Pfandhäuser* (pawnshops) play a special role to get easy access to cash credit for Germany. Doorstep credit has been banned on the continent for decades. The new member states still have a low rate of loans. The picture shows that the European consumer credit markets are far from being integrated.

Though consumers do not yet shop around in Europe for credit, expansive behaviour of banks can be noticed. The Spanish Santander Bank, The Royal Bank of Scotland, the Dutch Bank ING (International Netherlands Group), the GE Money Bank, the Bank Austria are some examples of cross-border activities of credit institutions. Another development relates to the area of debt recovery. It has become a secondary resource for additional income for a large market of predatory lenders which speculate on weak credit. With the increasing creation of a secondary consumer credit market where bad credit is handed



over to specialised debt collection agencies, the danger of producing more over-indebtedness is given.

Country	Year	Households	
Germany	2002	8%	3.100 mill.
UK	2002	7%	1.750 mill.
Hungary	2004	13%	0.500 mill.
The Netherlands	1998	7,6%	0.500 mill.
France	2000	2%	0.494 mill.
Austria	2003	9%	0,300 mill.
Sweden	2003	3%	0.140 mill.
Ireland	1997	12%	0.156 mill.
Belgium	2004	7,5%	0.359 mill.
Norway	1996	5,5%	0.090 mill.
Finland	2002	6%	0.151 mill.
Estonia	2002	10 %	0.070 mill.
Luxembourg	2003	0,2%	(557)
Denmark	1996	19%	0,464 mi
Italy	1996	11%	2,364 mill.
Portugal	1996	13%	0,445 mill.
Spain	1996	23%	2,770 mill.
Greece	no data existing		
Cyprus	no data existing		
Czech Republic	no data existing		
Latvia	no data existing		
Lithuania	no data existing		
Malta	no data existing		
Poland	no data existing		
Slovakia	no data existing		
Slovenia	no data existing		

Sources: Peer countries 2004; NAPs/Incl 2003-2005, ECRI 2003; Betti 2001

Another European topic is the harmonization of legal aspects relating to over-indebtedness. Though they differ in detail, the Scandinavian countries, Benelux, France, Germany and Austria have Debt Settlement Acts or Consumer Insolvency Legislation. These legal regulations allow for agreements between creditor and debtor, enable a 'fresh start' and protect over-indebted persons



from life-long prosecution. The southern countries (Spain, Portugal, Greece, Italy) and the new member states as well as Ireland do not have such a law.

The *EU Consumer Credit Directive* is supposed to bring a harmonization of laws, regulations and administrative practices. The intention of the first draft of the Commission was to increase the level of consumer protection and prevent over-indebtedness. The 2004 final Draft of the Commission¹ does not mention these goals any longer in the opening Article 1: *“The aim of this directive is to harmonise the laws, regulations and administrative procedures of the Member States concerning agreements covering credit granted to consumers and surety agreements entered into by consumers”*. The prevention of over-indebtedness and consumer protection is not explicitly named anymore as an aim of the directive. The regulations regarding the objective *“Responsible Lending”* are weakened as well: *“Responsible lending includes the requirement for the creditor to assess the consumer’s creditworthiness on the basis of a consultation of the relevant database”* (Article 5) In the first draft it was said that the creditor has to use all available information to be *convinced* that the debtor can fulfil his duties. If the creditor ignores the guidelines for responsible lending, he was supposed to be liable for the damage or default of the credit. It seems that the new proposal not only falls behind the First Draft but as well behind existing national consumer protection laws. It does not reflect the above mentioned European diversity.

1 Amendments to the proposal for a Directive on the harmonisation of the laws, regulations and administrative provisions of the Member States concerning credit for consumers repealing Directive 87/102/EC and modifying Directive 93/13/EC of October 2004 (2002/0216 (COD))



4. The good practice example: Money Advice and Budgeting Service (MABS)

In 1992, the Irish Government supported five pilot debt counselling schemes, with funding of € 330,000. Today, MABS has grown into a countrywide service with 52 independent companies limited by guarantee operating 65 local centres with a budget of € 11.4 million from the DFSA. The service employs 150 Money Advisers and 78 administrators for a population of 4 million. The services are located in buildings with easy and discreet access.

MABS operates as a partnership of all relevant agencies that are independent information and advice providers rooted in the local community. Local authorities, Community Welfare Services and bodies such as credit unions, public utilities and the Catholic Society of Saint Vincent de Paul are represented on the management boards. The DFSA has overall responsibility for management of the Programme, including monitoring of projects, financial administration and executive decision-making. A National Co-ordinator, appointed by and working within the DFSA, has a kind of control, connect and promote function for MABS. The service currently has no statutory base and to some extent this is a weakness.

The service aims to help people with debt problems relating to:

- rents/mortgages
- public utilities (water, electricity etc.)
- financial institutions, banks and moneylenders
- personal debts.

In the European context, MABS has some unique features: the organisation as independent companies limited by guarantee, the cooperation with the credit unions, the 'Money Advice Manual', the 'Loan Guarantee Scheme', the financing by the DFSA.

Objectives

MABS is independent, free and confidential. Its targets are:

- to enhance knowledge and skills of over-indebted people
- to identify sources of credit and supply information to everyone in society
- to work through partnership, e.g. with the Irish credit union network, where people can save and borrow small amounts (not possible through mainstream financial institutions)



- to involve the target group
- to provide access regardless of location, e.g. to rural communities
- to highlight changes in policy and practice.

Target group and client statistics

The target group comprises:

- people on low incomes and welfare
- people whose capacities make it difficult for them to organise their finances
- people with limited access to financial services or credit
- people borrowing from moneylenders or purchasing through mail order systems.

The demand is increasing, with 9,000 new customers in 2001, 12,000 in 2002 and 16,000 in 2003.

MABS produces a quarterly digest of standardised data covering gender, age, status, income and creditors. 94% of the clients are aged 26-65. Analysis of clients reveals that 71% are on social welfare. In the near future, MABS will set up a central, automated database to record customer statistics and facilitate the development of performance indicators.

Ireland's main ethnic minority is the Traveller community. Following a research study on access, MABS set up a special outreach service to link people to sources of support in their own community. The recent increase in immigration into Ireland is also creating a growing demand for help among people who have difficulty understanding a foreign system.

In the last two years, MABS has cemented closer relations with the 'One Parent Exchange Network' and the 'National Adult Literacy Association' which will help to reach more socially excluded clients. The stakeholders expressed the need to refocus the service to the original target group, rather than on clients from middle-class backgrounds with credit card or mortgage debts, and for measures to offer access to credit for low income groups.

Gender Dimension

Over-indebtedness has a clear female dimension. Often the women are the ones who first ask for help. They have to deal with the day-to-day impact of debts their husbands may have incurred. Especially divorced or separated women who are lone parents have to deal with over-indebtedness. 66% of the clients are female and 31% are lone parents.



Several factors known to contribute to over-indebtedness relate especially to lone parent families. These include:

- separation or divorce
- the expense of setting up an independent household
- (permanent) low income
- lower education and qualification levels
- temptation to purchase consumer goods from advertising and media, intensified by peer group pressure on the children.

At the moment there are no specific approaches for women or lone parents. If there are marital problems, MABS refers clients to other services.

Human resources and training of the advisers

The Cork MABS has 1,500 new clients a year, and is following 500 cases at a time. Each adviser carries out eight or nine interviews a week, lasting one to two hours. Telephone interviews could help to manage the workload.

MABS has developed a very impressive *Good Practice Manual for Money Advisers*. The first edition of this manual appeared in 2000. It is used as a training resource for Money Advisers to produce consistency between the different offices. The information is of a generic nature and updated regularly on the basis of experience and training requirements.

The manual reflects the guiding principles behind the service. These are:

- respect for the client
- credibility for MABS
- rights-based advice
- self help/empowerment
- locally based response
- client confidentiality.

Comhairle, a statutory body funded by the Department, has responsibility for training in the MABS.

Public-Private-Partnership

One of the essential elements of the MABS system is the close linkage to NGOs (like Saint Vincent de Pauls and the Free Legal Advice Centres) and to credit unions. MABS has a special relationship with Ireland's extensive credit union network (involving some 60% of the population), enabling clients to open saving accounts and obtain affordable credit. When clients open a credit union special account, they make regular contributions of what they can afford to-



wards existing or future demands, and creditors receive a monthly payment dependent on the members' lodgements. The 'Loan Guarantee Fund' (<€ 300,000) funded but not administered by the DSFA, underwrites small loans for special needs as an alternative to moneylenders. The fund is not used to any large extent. MABS does not authorise loans to repay debts.

Household Budget Plan

The purpose of budgeting with a client is to assist them to see clearly where their money is going so that choices can be made about future spending and to draw up a realistic plan to repay debts. Another key aspect is that of attempting to maximise a client's income. This involves firstly seeing if a client is eligible to apply for any additional payment currently and secondly to explore how the client could increase his/her income in the long term. The 'Household Budgeting Scheme' provides for a maximum of 25% to be retained from weekly welfare payments to cover regular bills. (In Ireland it is common for people to budget on a weekly rather than monthly basis, with even wages paid weekly.)

People with severe debts are liable to seize on any settlement available, but MABS sets out to find sustainable solutions, ensuring that clients keep enough money to live on. It helps to prioritise different debts, so that secondary debts², for example to financial institutions, can be paid off with whatever surplus is available.

Social Policies

MABS has some initiatives launched. Utility companies were found to be recalibrating household meters, in order to recover debts due in respect of finance agreements. MABS secured an agreement to stop this, so that now meters are only used to pay for energy supply. Paying for TV licenses is a problem for people on low incomes. MABS encourages them to save money regularly as part of normal budgeting.

Community Information and Education

The increase of clients is said to be a result of the promotion of MABS via advertising and the media. The service distributes leaflets and booklets and attracts frequent press coverage. Every month, 1,700 people visit the MABS website (www.mabs.ie)

2 Priority debts involve direct loss of goods, services, home or liberty in case of default. Secondary debts are those where default may lead to the creditor attempting to recover the debt as a civil matter, often through a Court.



In March 2004, a MABS National Development Company (NDL) with five officers was established to support the countrywide development of the service. Three National Development Officers have responsibility for Casework Technical Support, one for Community Education and one for Social Policy/Communications.

Benefits

The impact of MABS' support on clients is great. 73% have paid or are currently paying off their debts. 70% state that they can manage their money better. 82% have greater peace of mind.

The extent to which MABS is regarded as a benefit to communities is extraordinary. Over 90% of stakeholders, including creditors, were pleased with the service MABS provides. MABS is praised because of its contribution to improved health, quality of life and money management.



5. Relevance for and transferability to other national contexts

The first aim of the peer review process is mutual learning, the second objective is to facilitate the transfer of politics, affirmed Mr Feltesse at the meeting in Carrigaline.

Even in a global process of social change and modernisation, the transferability of social services like MABS has to face the different national attitudes, structures and policies of the Member States. Whilst for example the Scandinavian countries put responsibility mainly on the public sector and local municipalities to deliver social services, in continental European countries such as Germany and Austria NGOs have long-established roles in social welfare provision. Public authorities control the delivery of services but it is not necessarily their role to provide them. In Denmark, a liberal model emphasizing the free will and decision of people is predominant whereas in southern European states like Greece, Italy, Spain and Portugal the family and the extended family network play an important role in providing support and welfare. Due to their history, these kinds of services are in the first developmental stages in the new Member States.

The organisation of money advice and debt counselling can be seen as a kind of continuum. On the one end of the scale we find Germany and Austria which both have a strict separation of the welfare sector and the credit industry. Financial advice, budgeting and debt counselling form part of the social support system and are mainly provided by the welfare sector. On the opposite end of the scale we find The Netherlands where debt settlement and financial banking for over-indebted persons is handled and organized by the 'volkskredietbanken', municipal social banks. Between those two the MABS can be placed because of the co-operation of welfare services, municipalities and credit unions in the management board of each single MABS company limited by guarantee.

The variations in money advice and debt counselling systems can be highlighted by the following elements:



Centralised (Ireland, Lux)	Decentralised (Germany, NL, UK, Hungary)
Clear structure (Ireland)	Complex, diverse system (NL, UK, Germany)
Established systems (Ireland, UK, Germany)	Newly developing networks (new Member States)
Amicable/voluntary (The Netherlands)	Statutory (Lux)
Open access (Ireland)	Limited/ restricted access
Total government funding (Ireland, Lux)	Little or no government money/ operated by NGOs
Service for small populations (Ireland, Lux, Slovenia)	Service for large populations (Germany, UK)
Social support approach (Ireland, G, NL)	Neo-liberal approach (Denmark)
Law based (Germany, Belgium etc.)	no Debt Settlement Law (Ireland)

From the peer country comment papers and the discussion during the workshop in Carrigaline some features were revealed which would be appropriate for transferability.

United Kingdom

Traditionally, over-indebtedness in the UK attracted little political interest and was regarded as a problem of low incomes. However, it has now been acknowledged that the massive growth in consumer debts extends to all income brackets and all sections of the community. The main three reasons for financial difficulties are change of circumstances (like divorce), low income and over-commitment.

In autumn 2003 the government published a White Paper on consumer over-indebtedness showing that it affects between 44% (those who do not want to take on any more debts) and 1% (bankruptcy cases) of the population. The British NAP/Incl 2003/5 considers that beneath the statistics lie many individual cases of people who are trapped in a cycle of debt and are likely to need support in getting their debt under control. An estimated 3.5 million adults (7%) in the U.K. currently have no bank accounts access. In North Ireland nearly double



the proportion of people lack a bank account. Work to identify the scale of extreme indebtedness is said to be done during the period of this NAP.

Since June 2004, the UK has an 'Over-indebtedness Action Plan' but the framework for money advice is very complicated, involving a large number of actors. Money advice services have close links to the credit industry and are heavily subsidised by it.

The English expert found MABS very impressive: notably having central government funding for a coordinated network that can be built on. The British system is fragmented and locally funded, making it hard to ensure consistency. Delivery of Debt Advice services has until recently remained with the voluntary sector, and has developed to meet the growing needs of an ever more complex system. Money Advice is now a highly specialist area and a trained money adviser will advise and assist on the whole range of issues and options, from working out a clients budget and advising on expenditure, to complex assistance with bankruptcy, county court representation and legal defences. By far the largest provider of Money Advice is the Citizens Advice Bureau Network (CAB). CABs operate in over 3,200 venues (including outreach). There are 5,617 paid staff and 20,973 volunteers running the service. There is also a large number of independent advice services, and telephone advice has evolved rapidly over the last few years. But it is known as well that only 20% of households unable to meet their financial commitments in the past 12 months sought advice. The budget management service is an area of potential development in the UK, and distributing money to creditors from a single credit union payment is also attractive.

The obstacle to transferability is the absence of a credit union-style network in the UK. British credit unions cannot offer loans until clients become regular savers. The movement is not just for people excluded from credit access, and so it would have to look at expanding its services.

Hungary

From the beginning of the economic and political transition the most common reason of over-indebtedness has been the incapacity to pay for public utilities and housing loans, causing the loss of home. After several different approaches to resolve the problem of over-indebtedness, since 2003 (Revised Social Act of 1993) local governments have the possibility to run their own debt management services financed 90% by central and 10% by local budget.



But another problem is that the 3,200 local authorities operate as “little kingdoms”. In 2003, € 200 million of central funding was not allocated to social measures as intended, and the government is now looking at incentives to promote cooperation.

Under the Hungarian debt management scheme, participants receive financial support from local authorities which goes directly to the utility company or creditor. But 25% of the debt has still to be paid by the individual which is hard for families on really low income. The government intends to help resolving overdue utility bills by reducing the 25% family contribution for families in the most disadvantaged situations.

In 2003, the Ministry has launched a pilot project that aims to make debt management counsellors’ work more professional. In the opinion of the Hungarian participants, the peer review had clearly shown the need to pursue the efforts of the last four years to extend these facilities.

Since 1st January 2003, local authorities have been authorised to run debt-counselling services but it is not obligatory. The Hungarian representative said this should be compulsory so that everyone in need has access to money advice.

According to the Hungarian NAP/Incl. the target is to significantly reduce excessive household debt (unpaid overdue debt) by 2006. The Hungarian government has also decided to create a Consumer Insolvency Act. The Ministry of Justice has already started the preparation of the draft proposal of the act.

Germany

In Germany, several federal departments have responsibilities in the area of over-indebtedness. The Federal Ministry for Families, Senior Citizens, Women and Youth observes the development of excessive debt and supports activities which improve the situation of people with financial problems. This is being done in close co-operation with the Ministry of Justice (responsible for bankruptcy regulation), the Ministry of Consumer Protection, Food and Agriculture (especially regarding financial services, responsible lending and consumer protection), the Ministry of Economics and Labour, the Ministry of Health and Social Security and the Ministry of Finance.



There has been governmental interest in the fight against over-indebtedness going back to 1989, when the first major research project was funded by the Ministries for Family and Justice. Since then, a series of follow-up studies actualized the picture. The results of the studies were used for the shaping of the Consumer Credit Law (1991), the Consumer Insolvency Act (1999) and they are part of the 1st National Poverty and Wealth Report (1999).

In 2001, the introduction of independent legal aid for people in debt who cannot afford the costs of the proceedings, and cutting the *good conduct period* from seven to six years had a motivating effect for over-indebted people.

Due to German federalism, states and communities play a decisive role in the German system of social security. The implementation of debt counselling services started in the early eighties on the communal level in cooperation with NGOs like social welfare associations, social partners and self-help organisations. In 2004, about 1.050 debt counselling services were active.

Due to this elaborated and long-implemented system, the German interest concentrated on the way MABS was collecting client data. Germany was impressed by the private-public-partnership within the MABS system. "I intend to convince the Ministry to organise a campaign in partnership with banks and trade and telecommunications associations," the German representative declared. Finally, Germany could benefit from copying the Money Advice Manual and adapting it to local circumstances.

The Netherlands

Help with problem debts in the Netherlands distinguishes between an amicable and a statutory process. The amicable process is run by the municipalities. They control the various independent local organisations helping with debt problems, e.g. municipal banks, social work organisations and municipal social services. Because municipalities have a lot of policy freedom, there are great local differences in the implementation of the services. The approach is a comprehensive one which includes at the same time the financial situation and psychological help to change behaviour. The services provided are: prevention, intake interview, consultation, case management, budget management, budget guidance, debt rescheduling, psycho-social help, after-care, statement under the Debt Rescheduling Act (DRA).



The municipal banks have a leading role in the process, in particular regarding debt rescheduling. The DRA belongs to the statutory process. By law, creditors can be forced to cooperate for debt rescheduling. Under a strict regime debtors have to repay as much as possible of their debt within a 3-year-period. Then they will be released from debts.

The services of the MABS *Training and Community Education Service* can be partly compared with the duties of NIBUD (*National Instituut voor Budgetvoorlichting*)

Because of growing problems, the Netherlands have to focus on homeless people who are not able to open bank accounts, on debt prevention among the young, and on the expanding population of older people who may have growing debt problems in the future.

The Dutch representatives liked MABS' "people-oriented style", its ongoing attention to quality standards and its national coverage. The centralised management was of interest too. The peer review offered new incentives to strengthen these aspects in the decentralised Dutch system.

The Netherlands representatives expressed that they could learn a lot from the Irish example, especially from the openness and commitment of the people involved. Hope was expressed that more information would be available in future on the contribution of debt counselling to reintegration.

Slovenia

In Slovenia, the most frequent reason for over-indebtedness is raising loans on the "grey market". These types of loans are the most risky ones for people in the lowest income group because they do not have great chances to get a bank loan.

In 2004, Slovenia has already taken some steps to improve the protection of consumers. The Law on Consumer Credits states that the creditors have to announce the effective interest rate and the highest effective interest rate is defined. The Law on Execution and Insurance states that social transfers and similar incomes are exempt from execution. The Ministry of Justice is preparing the draft for changing the Law on Bankruptcy and Forced Settlement so



that it would contain also the term “personal bankruptcy/insolvency”, based on German and American legislation.

Slovenia has no existing network of debt counselling agencies. The Slovenian expert was enthusiastic about implementing a similar system to MABS, through the network of Centres for Social Work (CSW), located near customers. However, it would require strong political will because of the cost involved which has risen steeply in Ireland over the years.

It also requires cooperation between a range of different bodies, including the Ministry of Social Affairs and the Ministry of Finance, in order to authorise settlement of public debts, as well as municipalities and consumer protection agencies.

The Centres for Social Work would be appropriate locations since people on low incomes know them already. However, debt counsellors need additional expertise in financial issues, and it would therefore be necessary to introduce a new job profile.

In order to make such a system successful, it would also be important to put a lot of effort into promotion. Therefore the best plan would be to launch a pilot project in an urban area like the capital Ljubljana.

Luxembourg

In 2000 in Luxembourg a new law introduced proceedings of a collective payment of debts and set up a state-funded scheme to help people clear debts once they agreed on a repayment plan. The sum is capped at € 10,000 with a maximum seven year repayment period. Three institutions are involved in the implementation of the law.

The *over-indebtedness information and advice service* is managed by a partnership of two social organizations and completely financed by the Ministry of Family, Social Solidarity and Youth. This service tries as far as possible to find an agreement with the creditors without having to go to the proceedings of a collective payment of debts. When no agreement is found a *mediation commission* proposes a recovery programme, which can eventually include different financial measures but also some social aid. Under the proceedings of a



collective payment of debts, the *over-indebtedness stabilization fund* can be used to help people to get straightened financially.

Due to the size of Luxembourg's population and the above described procedure, there is no real possibility of transferring MABS to Luxembourg. But the country could learn lessons from the Irish example especially with regard to evaluation, since there is no systematic collection of statistical data on clients.

Denmark

The incidence of low income, unemployment and social exclusion is relatively low in Denmark. Half of the over-indebted people are indebted to the public sector. If people are hopelessly indebted they can apply for debt rescheduling. A debt rescheduling case is handled at the bankruptcy court which decides on a repayment scheme for five years or the partly respective complete elimination of the debt. People on social welfare are not expected to repay debts but become liable again as soon as they get a job.

Except for the *Danish Consumer Information Centre* - a Copenhagen-based state institution - Denmark has no service similar to MABS due to the view of the Government that individuals must be responsible for their own financial situation.

Recently, the Danish government has decided to invest in helping people out of debt and back into work, and within the next six months it will be formulating proposals for ways to do this.

Debt counselling along MABS lines will be a central aspect and should accompany any scheme for debt relief. Therefore, the Danish participants will forward proposals to the Minister.

Belgium

There was some interesting information about the Belgian situation given by the RETIS representative. In Belgium a number of tools for controlling credit have been agreed. Credit organisations are obliged to consult a national credit register where loans must be recorded. Creditors' responsibilities are defined



and judges can cancel debts if credit is awarded to people who cannot afford repayments. This has helped to cut the number of such loans in Belgium. Financial institutions cannot pass over unpaid debts but must reveal them in their accounts. Furthermore Belgium has a law whereby private energy providers pay a tax to help cover consumers' energy debts. It is illegal to cut essential services to people in arrears and a judge must authorise withdrawal of water supply. This reinforces the social responsibility of the private sector. Additionally, Belgian legislation of 1994, amended in 1997, gives a judge the right to cancel both debt and interest in cases where people are unable to pay.

A fund (*Fonds de traitement du surendettement*) was established in 2003.

The representative of RETIS felt MABS had weaknesses in being too creditor-orientated, and lacking a legal framework to reassure people they will get help. Debtors should never be jailed, he emphasised.

However, there are many positive points, including national co-ordination and local diversity, strong emphasis on social cohesion, and a model suited to rural societies whilst also applicable in large cities. The richness of human contact, from an early stage, is really important.

He was interested in the role of credit unions and savings banks. In Spain and Italy RETIS is working with large financial institutions like the Banca Monte dei Paschi in Siena, to develop new instruments to put social responsibility back into banking.



6. Conclusions and lessons learnt

The Irish peer review process was a good example of the intention of the open method of co-ordination in the field of social inclusion policies. Its first target, the mutual learning process, was assessed very positively by the peer countries and stakeholders present in Carrigaline. The second objective, transferability, faces a complex and multi-faceted European picture. One-to-one transferability would eradicate national variety and is out of the question. But what is possible is to facilitate the transfer of political approaches, of elements of a good example to another country.

For a number of reasons transferring lessons from one country to other national contexts meet several difficulties. The transferability of a policy depends, firstly, on the institutional context, which includes the roles of the public, private sectors and NGOs, the degree of centralisation, and the tradition and structure of civil society. Secondly, it depends on the characteristics of the policy itself – e.g. the definition of the problem, the complexity of the approach, the scope of the service.

The *first* lesson which can be learnt from the peer review process is that *responsibilities can be shared between different levels* within a country. It is not a question of 'top-down' or 'bottom-up' developments, it is more a matter of *communicating vessels*. In general, a new social problem is noticed first by the persons affected and addressed by means of self-help or by the help of NGOs. But without the support of the municipalities, the states or the government, an effective fight against the problem is exceptional.

The same happened in Ireland. When the problem of people in financial difficulties arose, the first help came from welfare societies like Saint Vincent de Paul which helped over-indebted people by negotiating with creditors on a voluntary basis. The social alarm which is raised by these kinds of activities leads to public attention which drives activities by the responsible ministries or the government. By a mutual learning process MABS could be enlarged to the present dimension. It is not exaggerated to claim that the amount of the support given in the past decade by the DFSA is unique in Europe. That is the *second* lesson: The combat against over-indebtedness and other forms of social exclusion needs *a strong ongoing support by the political will and power*.



The positive example of the DFSA leads to the question: Is it only in the duty of local or central governments to finance the services? Mr. Zanella from RETIS put it this way: *"It's a bit silly to use money from public authorities to help people to repay debts to the private sector, when public authorities have such limited finances."* The Belgian regulation whereby private energy providers have to pay a tax to help cover consumers' energy debts is an innovative answer to this question. The MABS cooperation with credit unions or savings banks is another innovative answer. Would it be possible to set up a socially oriented, transnational credit initiative? It could be further discussed whether a donation of 0.1% or 0.2% of the turnover of banks, insurances, mail order companies, moneylenders etc. could be used for debt counselling. A financial contribution to the setting up and running of debt management services seems to be appropriate and is a cost-effective system of recovering debts.

There is no question that a tailored and appropriate service can be developed as a self-help group activity. The *Alcoholics Anonymous* are the best existing example. But there are many other examples like MABS which demonstrate that a mutual learning process and support make things easier and better. MABS is now a vital national resource and as such needs to be integrated into the overall network of state services, especially key services for promoting social inclusion.

A third lesson therefore would be that the *partnership model* is the key, requiring cooperation between professional and voluntary organisations and other bodies such as housing and health services.

A debt problem situation affects the whole life and causes isolation and exclusion. Over-indebtedness is not only related to the financial situation but causes social and psychological problems as well. The financial misery links in with unemployment, divorce, working poor, bad health but addresses as well the problems of lone parents, young people, homeless and ethnic minorities. *"We have to take account of the problem of over-indebtedness among all these groups,"* noted Mr. Feltesse, *"not in order to separate them from others but to develop a better capacity to tackle their special needs."*

Political conscience and awareness of debt issues should be increased. *Mainstreaming* in this regard is a vital consideration and the *fourth lesson*. Decision-makers at both European and national levels could look at ways of "debt-proofing" policies on, for example, housing, utilities, financial services



and employment, so as to take account of the impact of debt within these areas. Further priorities concern reintegration into employment and making work pay. Access to financial services like bank accounts or access to credit are crucial, financial inclusion is part of social inclusion. EU-wide rules should ensure that families are not cut off from essential utilities if they cannot meet bills.

As said before, the definition of a problem has a strong influence on the direction of policies. Therefore a necessary requirement is a common shared definition of over-indebtedness, to enable Member States to reach their targets and the EU to compile common data. As *fifth lesson, the EU* should establish a working group to find a common accepted European definition for over-indebtedness. A lack of standards and data at both national and European level has to be overcome to improve the possibilities of comparative analysis. Good data, good indicators, and monitoring are necessary for evaluation. More evaluations of the different existing approaches and services in other countries should be done. The three evaluation studies in Ireland are exemplary.

Debt counselling services exist in some countries but not in others. But even in countries with an established debt counselling network structure (e.g. Germany, The Netherlands) the demand for debt counselling surpasses the supply. Transferability of the Irish model tends to depend on whether established programmes are already in existence, but there are several elements of MABS that could be adopted even here. These include the Money Advice Manual, and common professional standards for Money Advisers. The need for expert training and a specific job profile is obvious, combining social and financial skills and breaking down the barriers between these two separate worlds.

Accessibility is lesson no. 6. Everyone who needs help should receive it. Small businesses cannot be excluded because often they are family enterprises. Debt management services must be *universal*. The right to such support links up with notions of human dignity common to the EU Charter of Fundamental Rights and the new Constitution. Money advice and debt counselling can be organised differently, there is no global ideal way, just some very good local ways like MABS. But there is no doubt that money advice and debt counselling is an effective measure to tackle over-indebtedness.

Targeting is lesson no. 7. Services need the capacity to be able to reach specific groups of clients while at the same time offering a personal service to each individual. This tailored approach builds customer confidence.



The comments of the peer countries made it obvious that national Debt Settlement Acts are an advantage in the fight against the exclusion of over-indebted people. The Member States without such a law must find its own legislative framework for promoting money advice services at national level, plus common standards to apply at local level. But it is strongly recommended that Family and Social Ministries take an active part in convincing Ministries of Justice of the necessity to implement such a law.

Over-indebtedness must be included in the NAP/Incl. In June 2005, the new Member States must submit implementation reports on their NAPs/Incl and the old EU-15 must also report on any new strategies for the period 2005-2006. All Member States will be required in 2006 to submit new NAPs/Incl covering the period 2006-2009. These could be opportunities for placing a higher emphasis on over-indebtedness. The issue of over-indebtedness should feature in assessment of NAPs/Incl 2003-2005 and the preparation process for new plans from 2006.

Prevention of over-indebtedness is one of the main goals of any kind of debt counselling and money and budgeting advice. Prevention does not only have to focus on individual behaviour but has to take into account the push by business activities, the structural frame and societal patterns. There was a strong feeling that the prevention of over-indebtedness should receive more importance in the Draft Consumer Credit Directive.



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